Brooklyn Law Review

Volume 64
Issue 3
Symposium:
Getting Ready for Individually Managed Pensions:
A Global Perspective

Article 5

3-1-1998

Pensions and Post-Retirement Benefits by Employers in Germany

Lothar Schruff

PENSIONS AND POST-RETIREMENT BENEFITS BY EMPLOYERS IN GERMANY*

Lothar Schruff†

I. PENSIONS AND POST-RETIREMENT BENEFITS

A. *The Dominance of the Compulsory Social Insurance System in Germany*

In Germany, the pension system is characterized by the reciprocity of the statutory social insurance pension scheme, company-funded plans, and life insurance (three pillars). The legal pension scheme (first pillar) is the largest part of the Social Security system in Germany. In 1996 state pension expenditure for this scheme totalled DM 323 billion. This represents 8 percent of the German gross national product ("GNP") and covers about two-thirds of the amount needed for retirement.[1]

The plan grants a benefit in the event of disability, death or old age. It is unfunded. This means that each generation of workers pays for the pensions of the previous generation in the expectation that the next generation will pay for its pensions ("pay-as-you-go"). This is known as the "generations contract" in Germany. The annuity paid to employees is determined by several factors of a present value formula: the remuneration of the employee, the height and length of premium payments, the age at retirement (for example at the age of 60, 62 or 65 years), the type of pension (death or old age) and–as a compensating adjustment–the current wage index (wage level).

---

† Professor at the University of Göttingen, Germany (Accounting, Auditing and Insurance Economy).

[1] *See* ÜBERSICHT ÜBER DAS SOZIALRECHT 115, ed. Bundesministerium für Arbeit und Sozialordnung, 4. ed., Bonn 1997 [OVERVIEW OF SOCIAL RIGHTS 115 (Federal Ministry of Labor and Soc. Security ed., 4th ed. 1997)] [hereinafter BMA 1997].

Contribution is paid as a fixed percentage applied to all levels of income up to a certain limit. The contribution is equally shared by the employee and the employer up to an earned income of DM 100,800 and DM 84,000 in the former Federal Republic and former East Germany, respectively.[2] The limits and the rate of contribution are set by law. The employee's contribution is deducted from his or her monthly salary and directly transferred to the Social Security pension insurance by the employer, together with the latter's share. The current contribution rate is set at 20.3 percent of earned income. This rate did not increase as of January 1, 1998 due to extra federal expenditure which was funded by increasing the Value Added Tax on April 1, 1998.[3]

The principal objective of the Social Security pension insurance since its reform in 1957 is to help employees maintain their standard of living. Assuming that 70 to 90 percent of their last net income is the amount needed for retirement, company-funded plans (second pillar) and private provisions (third pillar) will have to bridge the gap between state benefits and the amount estimated for retirement.

Germany's current pension system, however, has reached its limits, caused in part by several developments set forth below.

1. Changes in the Labour Market

a. *Late Entry and Early Retirement From the Labour Market*

Late entry is caused by a comparatively long education term at school and university as well as apprentice training. Germany is facing additional early retirements because of high unemployment. Old age pension payments granted to unemployed individuals aged 60 years or older are becoming more and more important as the number of people receiving

---

[2] *See* DIE RENTE: VON GENERATION ZU GENERATION 16, ed. Bundesministerium für Arbeit und Sozialordnung, Bonn 1998 [PENSIONS: FROM GENERATION TO GENERATION 16 (Federal Ministry of Labor and Soc. Security ed., 1998)] [hereinafter BMA 1998].

[3] *See* BMA 1998, *supra* 2, at 16.

this type of pension increased sixfold during 1992–1996. Late entry and early retirement shortened the contribution period significantly and led to increased state pension expenditure.[4]

b. *Loss of Contribution Value Due to Changes in Employment Relations*

When the pension reform was implemented in 1957, 98 percent of employed individuals worked full-time. Today, this portion has decreased to only two-thirds. The contribution of part-time employees to the system is too low to finance the requested support.

More important, however, is the fact that during the past 25 years, illicit work has–according to estimates–more than doubled: from about 7 percent to 15 percent of the gross domestic product. This equals an amount of DM 550 billion. This amount exceeds the entire volume of occupational pension scheme funds accumulated during these years. In addition to these changes in the structure of the labour market from contributory to non–contributory, self–employment decreased the volume of contributions (false self–employment; minor employment).[5]

2. Demographic Changes

a. *Declining Birth-Rate*

Since 1970, the demographic structure is shifting as the number of new-borns constantly declines. During the past 30 years, the birth-rate has dropped by 40 percent.

b. *Increase in Life Expectancy*

Life expectancy has constantly risen during the past 30 years. Women and men in Germany have a current life

---

[4] *See* RULAND, Franz, *Perspektiven der Alterssicherung – Am Beispiel der gesetzlichen Rentenversicherung und der betrieblichen Altersversorgung, in:* DER BETRIEB (1996), pp. 2617-2625 [Franz Ruland, *Pension Plan Prospects: Illustration of the Statutory Pension Scheme and Company Pension Scheme, in* COMPANY 2617, 2618 (1940)].

[5] *See id.*

expectancy of 83.6 and 79.8 years, respectively. Thus, the average drawing period of pensions has increased from 10.1 to 15.9 years during 1960–1996.[6]

c. *Long–Term Demographic Changes to Which the Contribution System is Very Sensitive*

According to forecasts, 100 active workers have to support:

50 pensioners	today
62 pensioners	in 2010
74 pensioners	in 2020
96 pensioners	in 2030

Among experts and politicians there is no doubt that there must be cuts in the legal pension plans which can only be compensated for by company-based and private provisions for pensions. This affects the occupational pension schemes in Germany in a time characterized by stagnation, or even declining development, caused by aggravation of the overall situation.

With the defined benefit system common in Germany, it is usually the enterprise which has to bear the enormous additional burden caused by, for example, the increased life expectancy which was discussed earlier.

Finally, since post-retirement benefits are virtually of no importance in Germany, this subject shall not be discussed in this Article. Suffice it to say, the health risk of the pensioners is covered by a system of statutory and private health care. If granted, post-retirement benefits are paid by an employee's company as voluntary benefits for individual pensioners who fall into a state of need.

[6] *See* BMA 1998, *supra* note 2, at 20, 22.

II. Pension Plans Provided by Employers

A. *Fundamentals of Company–Based Pension Schemes*

Company-based pension schemes are optional fringe benefits provided by the employer. If benefits for old age, disability and dependents are granted in an employer-employee relationship, they are subject to specific regulations of the Company Pension Act of 1974 (Betriebsrentengesetz (Company Pension Plans Act)). These regulations have established the following minimum standards for pensions:

1. Principle of Voluntariness

The granting of pensions or post–retirement benefits is subject to the decision of the employer who can determine the granting, the type and the size of the support.

2. Vested Benefits

After a certain number of years of service any non-vested benefits become vested. In detail, an employee achieves vested benefits status if he has attained the age of 35 and one of the following applies: (1) the granting of the benefits has been valid for ten or more years or (2) the number of service years is at least twelve and the benefits were granted at least three years ago. The employee's benefits are then vested even if the employee-employer relationship ends before the employee retires (§1 Betriebsrentengesetz).

Protection against insolvency is provided by compulsory insurance to ensure payment of any vested benefits. This legal requirement only applies to methods without asset plans or other types of safeguarding in effect to protect the employees from a company's insolvency (Direktzusage (Direct Pension Promise) and Unterstützungskasse (Support Fund)). The underwriter of this insurance is the Pension Guarantee Association (Pensionssicherungsverein auf Gegenseitigkeit), operating as a self-help institution of the German business community, organized as a mutual. Financing is done by contributions of the employers (§§7–15 Betriebsrentengesetz).

3. Adjustment Requirement (§16 Betriebsrentengesetz)

According to regulations of the Betriebsrentengesetz every employer has to adjust all current payments for pensions to inflation. The standard for this adjustment is the consumer price index.[7]

The Company Pension Plans Act (Betriebsrentengesetz) comprises four traditional methods to account for pension benefits. In Germany, defined benefit plans and virtually no defined contribution plans are granted. This is important to remember since the type of pension plan determines the possible ways to account for it.

B. *The Traditional Methods to Account for Pension Benefits*

1. Direktzusagen (Direct Pension Promise)

German companies execute contractual agreements granting defined benefits to their employees. Specifically, employers enter into a legal obligation in favour of a beneficiary. This obligation is commonly characterized by the fact that the commitment made today (present time) has to be fulfilled in general at the time of retirement of the employee, which is usually thirty or more years later. Legal protection for such pension obligation is provided by the Pensionssicherungsverein, the Pension Guarantee Association.

In its financial statements, the enterprise accrues reserves for pensions during the time the contracted employee works for the company. The present value of the company's pension obligation with regard to such employee is calculated to meet the pension benefit commitments arising at such employee's age of retirement. Following this approach, the effective working time of the employee is charged with expenses. In the

---

[7] *See* LANGOHR-PLATO, Uwe (1998): RECHTSHANDBUCH BETRIEBLICHE ALTERSVERSORGUNG: ALLGEMEINE GRUNDLAGEN, KOMMENTIERUNG DES BETRAVG, PRAXISRELEVANTE SONDERFRAGEN, GESTALTUNGS-HINWEISE, MUSTERTEXTE, RECHTSPRECHUNGSDOKUMENTATION 13-18, Herne/Berlin 1998 [UWE LANGOHR-PLATO, LEGAL HANDBOOK FOR COMPANY PENSION PLANS: GENERAL PRINCIPLES, COMMENTS OF THE COMPANY PENSIONS PLAN ACT, PRACTICAL CASES, INSTRUCTIONS, SAMPLE TESTS, JURISDICTIONAL DOCUMENTATION 13-18 (1998)].

years of pension payments, however, no further expenses will be charged as pension provisions will then be released on a pro rata basis.

In addition to the above, if a company earns the pension expenses of the respective fiscal year as cash inflows, a financing effect will result as the cash outflows will be due substantially later. Specifically, by establishing provisions for pensions, earnings that would have otherwise been distributed to the shareholders will be tied up in the enterprise on a long-term basis. In general, periodic pension cost reduces taxable income (there are some restrictions which will not be discussed here in detail). Thus, the deferred taxes on income increases internal financing. As these funds are available without interest due to tax deferral, profitability will improve provided that the resources are properly invested.

The financing effect in the case of Direktzusagen was a simple and efficient means of internal financing especially during the time of reconstruction following the monetary reforms of 1948 when the equity market was low.

Due to the lack of asset separation, the profitability of the invested capital cannot be determined on an isolated basis. It may well be that the internal rate of return is lower than the capital market rate of return. With respect to its pension obligation, however, companies are bound to their pension commitments, irrespective of either the return on investment or the risk of longevity.

Finally, as for the employee, the pension commitment has no tax consequences during his or her service years. Further, it is not subject to income tax during service years as the employee does not earn additional income, whereas any pension payments received after retirement are subject to the individual income tax rate (post-retirement taxation).[8]

2. Unterstützungskasse (Support Fund)

Pension services can also be rendered by a legally independent organization called Unterstützungskasse (e.V. = registered organization, GmbH = private limited company)

---

[8] *See id.*

usually operated by the company, itself, or a group of companies. The carrying company makes voluntary payments to the Unterstützungskasse to ensure its financial obligations.

The Unterstützungskasse, itself, does not grant the employee any entitlement to benefits. However, the employee may have a direct claim against the supporting enterprise under the labour law if, for example, the Unterstützungskasse is unable to pay in full or at all (secondary liability).

Such claim rests upon a legal basis. Specifically, if the Unterstützungskasse grants an employee benefits, the pension trust has to be registered as an insurance company. However, the Unterstützungskasse is neither subject to state supervision of insurance companies nor the strict provisions governing investments of insurance companies. In principle, the Unterstützungskasse has no limitations regarding its investment policy. For this reason, it is a common practice that the Unterstützungskassen place received contributions at the disposal of the carrying enterprise as a loan. Virtually no liquidity is withdrawn from the enterprise. Moreover, the flexible endowments to the Unterstützungskasse and the loan interests are usually tax-deductible.

If, on the other hand, the employee has no legal claim against the Unterstützungskasse, any endowments and/or interests will be tax-deductible only as long as a trust capital of two annual pensions per beneficiary is not exceeded. This tax limitation may, however, be avoided if the Unterstützungskasse insures its performance risk with an insurance company or a Pensionskasse (special form of the Rückgedeckte Unterstützungskasse (Re-insured Support Fund)), which requires more rigorous solvency criteria.

Finally, taxation of an employee's income in the case of the Unterstützungskasse is analogous to the Direktzusage (post-retirement taxation).[9] Also, similar to Direktzusage, the insolvency risk is covered by a special form of insurance model of the business community, the Pension Guarantee Association (Pensionssicherungsverein).

---

[9] *See id.*

3. Pensionskasse

Comparable to Unterstützungskassen, Pensionskassen are legally independent entities rendering old age pension provisions whose carriers may also be one or more enterprises. Further, similar to the Unterstützungkasse, the Pensionskasse is a social institution; as such, it is exempt from tax considerations. In contrast to the Unterstützungkasse, however, the Pensionskasse qualifies as an insurance company as employees of a company are entitled to benefits against the Pensionskasse, itself. Further, it is subject to the legal forms applicable to insurance companies (AG = stock corporation, VVaG = mutual insurance company), the state supervision of insurance companies and the strict provisions for contributed capital and investments. As insurance companies, the carrying enterprise is required to pay premiums to finance the pension commitments.

4. Employer-Sponsored Life-Insurance With Third Party Involvement

While employer-sponsored life insurances are especially suitable for smaller enterprises, as risk and administration are transferred to a professional insurer, all size enterprises may participate. In the case of employer-sponsored life insurance, companies sign life insurance contracts with life insurers in favour of their employees and pay the premiums. For the enterprise, the premium payments represent a regular efflux of liquidity. However, these payments reduce profit and are deductible for tax purposes.

The company as policyholder may in principle receive an advantage over the insurance policy (although several restrictions apply). If such is the case, the company has to pay contributions to the Pension Guarantee Association to ensure that the employees' pension entitlements are secure should the company file bankruptcy.

Finally, with regard to financing and taxation, Pensionskasse and employer–sponsored life insurance are treated equal. In contrast to a direct commitment and a Unterstützungskasse, the contributions made under these methods are taxable and, therefore, subject to the employee's income tax (pre-retirement taxation). Moreover, if maximum contributions do not exceed DM 3.408, a flat-rate taxation can be applied.[10]

C. *Importance of the Traditional Methods*

The following table shows the amount and ratio of the different pension methods as a proportion of the total funds of the various institutions:

Total Covering Funds of the Occupational Pension Schemes in 1996[11]

Method	Amount in billion DM	Share in %
Direktzusagen	292	56.7
Unterstützungskasse	42	8.2
Pensionskasse	114	22.1
Employer-sponsored life-insurance	67	13
TOTAL	515	100.0

As the above table illustrates, the dominating method is the Direktzusage, which is, to my knowledge, of virtually no importance in the United States. The Unterstützungskasse which resembles the Anglo-Saxon pension trust the most, is of minor importance. In this connection, one must take into account the fact that for tax reasons, trust capital can only be accumulated up to a limited amount. Both forms—Direktzusage and Unterstützungskasse—enable internal financing for the supporting company.

The comparatively small portion of the separated commitments allocated to Pensionskasse and employer-sponsored life insurance can best be explained by the differing

---

[10] *See id.*

[11] *See* ARBEITSGEMEINSCHAFT FÜR BETRIEBLICHE ALTERSVERSORGUNG e. V. (aba), Vol. 53, 1998, Issue 1, p. 31 [WORKING GROUP FOR COMPANY-FUNDED PENSION PLANS, Vol. 53, Issue 1, 31 (ABA 1998)] [hereinafter ABA].

tax consequences. For tax purposes, the commitments of both institutions are treated as employees' income and are generally subject to income tax.

Despite their differences, however, pension payments are guaranteed under all four pension schemes: Direktzusagen and Unterstützungskassen by the Pension Guarantee Association; Pensionskassen and employer-sponsored life insurances by state supervision of insurance companies.

Likewise, a general disadvantage of all four traditional methods is the statutory guideline. If the employee changes his or her job, the claim to pension becomes vested only after ten years of service.

D. *Circulation of Company-Based Pension Schemes*

As mentioned earlier, occupational pension schemes are voluntary benefits provided by employers. While pension benefits are the most important of employers' contributions, they are also the most cost-intensive.[12] Moreover, not every employee is entitled to additional pension benefits. Pension provision circulation is examined below.

According to government statistics, only one out of every three companies grant pensions to their employees. On average, almost 50 percent of all employees receive a company pension.[13] However, a mixed picture arises when one considers split-ups by industry.

Specifically, in the former Federal Republic of Germany, about two-thirds of the employees in the industry, and only 30 percent in the trade, sector are entitled to an additional pension provisions sponsored by their companies.

In the former East Germany (where no occupational pension schemes existed until the reunification) one out of every ten employees in the industry, and every seventeenth employee in the trade, sector receives an additional company pension. Presently, the majority of the enterprises are still under construction or reconstruction.

---

[12] *See* Ruland, *supra* note 4, at 2623.

[13] *See* BERENZ, Claus (1995): *Betriebliche Altersversorgung - 3. Amtliche Erhebung, in*: DER ARBEITGEBER (1995), pp. 435-438 [Claus Berenz, *Company-Funded Pension Plans–3rd Official Collection, in* EMPLOYER 435, 435 (1995)].

Generally, in small and medium-sized companies, a deficit in occupational pension schemes can be observed. In fact, the volume of new pension commitments engaged in by employers has been declining over the past several years. Indeed, companies increasingly illustrate the tendency to reduce benefits to employees. The most common practice reveals that new employees are not included in existing company pension schemes due to high wage cost pressure and intensified competition. Tax conditions and outlines further aggravate the situation.[14]

III. REFORMATORY ATTEMPTS

A. *Reforms Currently in Progress*

Although there exists national consensus regarding the necessity of pension reform, no action has been undertaken in the tax arena. In fact, only two partial pension reform steps have been realized: the conversion of future claims into pension payments and the introduction of the so-called Altersvorsorge-Sondervermögen ("AS") (Pensions Investment Fund).

Further, as of January 1, 1999, the Pension Reform Act of 1999 will have come into force. As for the Company Pension Act, the following changes will take place: Defined contribution plans similar to the U.S. pension system will still not be possible due to legal requirements. A pension commitment defining the contribution rather than the benefit will, therefore, still be prohibited. The company must define the benefit.[15] Nevertheless, contribution-oriented plans will be possible which are legally mentioned in the reformed Company Pension Act.

The core change in the Company Pension Act mitigates the compulsory adjustment for inflation defined in §16 Betriebsrentengesetz. Specifically, a company can refrain from

---

[14] *See* RUPPERT, Wolfgang (1997): *Ungüngstige Bedingungen für die betriebliche Altersversorgung, in*: IFO SCHNELLDIENST (1997), p. 10-19 [Wolfgang Ruppert, *Unfavorable Conditions for Company Pension Schemes, in* IFO SCHNELLDIENST 10, 11 (1997)].

[15] *See* LANGOHR-PLATO, *supra* note 7, at 33.

adjustment if it agrees to increase pensions by at least 1 percent per year.[16]

B. *Conversion of Future Remuneration Claims to Pension Payments*

As of January 1, 1999, the list of traditional pension methods will be expanded in a fifth way: the conversion of remunerated claims into vested rights to future pension payments of equal value. This concept is based on the widespread model of deferred compensation in use in the United States. Although such concept has been implemented by several large German companies, special approval by the appropriate tax authorities was required prior to the January 1st recognition date.

As a result of the implementation of this fifth method, a company's pension commitment is not financed by the enterprise, but by the employee. Specifically, employees who are financially better off choose to participate in this method. The employee waives the payment of future remuneration claims–for example, a forthcoming salary increase. The enterprise instead pays such amount into a life insurance contract or makes a comparable direct commitment. Under certain circumstances, this method offers substantial tax benefits to the employee compared to a pay-out. According to future regulations, these commitments are also protected by the Pensionssicherungsverein (despite the fact that this has been denied by the PVS until recently).[17]

This model, however, is defective by design: The law does not provide for cancellation or reduction of the period after which the claims become vested. This legal provision commonly applies to all other methods.

---

[16] *See* DOETSCH, Peter/FÖRSTER, Wolfgang/RÜHMANN, Jochen (1998): *Änderungen des Betriebsrentengesetzes durch das Rentenreformgesetz 1999, in*: DER BETRIEB (1998), pp. 258-263 [Peter Doetsch et al., *Amendments to the Company Pension Act through the Pension Reform Act of 1999, in* COMPANY 258, 259, 262 (1998)].

[17] *See id.* at 258.

C. *Altersvorsorge-Sondervermögen (Pension Investment Fund)*

In connection with the increasing importance of defined benefit pension schemes in Germany, an investment-fund model has become more and more significant: the so-called Altersvorsorge-Sondervermögen ("AS"). The AS will be professionally administered and is subject to state supervision. The statutory basis for such model was enacted this year, and it is already being promoted by enormous campaigns. The first funds of this kind will be initiated following attainment of the requisite approval by bank regulatory authority. This is likely to take place within the next few months.

Unlike existing investment funds which are engaged in certain financial market segments (stocks, bonds), the objective of AS is to provide for a special savings plan (target fund) for investment of a person's individual old age provision. The special feature of these funds are their investment possibilities. Specifically, due to the long-term aspect of old age provisions, the statutory regulations require that at least 51 percent of the fund's assets are invested in real assets (real estate, stocks, equities). The amount of funds invested in real estate, however, is not to exceed 30 percent of the fund's assets. Additionally, the share of investment in stocks and corresponding assets ought to be between 21 percent and 75 percent of the fund's assets. Finally, the AS portfolio mix has to take into account both the real value and the rate of return.

The AS is not an instrument of occupational pension schemes, even if the employee enters into the obligation to pay the saving contributions. By nature, it is a savings plan, not a pension plan, as the risk of disability during the savings period and biometrical risks are not covered. Thus, it can be predominantly classified to the third pillar of the German pension system.

D. *Selected Reformatory Proposals*

In July 1998, a commission appointed by the Ministry of Finance proposed the introduction of three different forms of pension funds in addition to the existing models. They may be described as follows:

1. Betriebsunmittelbarer Pensions Funds ("BUPF")

These funds are a further development of the Direktzusagen. The assets of the fund will be hived off the enterprise. This form is only suitable for defined benefits, not for defined contributions. Therefore, the balance sheet of the company will be relieved from the allocated assets and the pension obligations. In addition, the BUPF is neither subject to taxation nor legally responsible. The fund's assets are mortgaged to the pension recipients. The enterprise bears the performance risk and is liable in case the assets accumulated in the pension fund are insufficient to meet the commitments. Finally, the option of the pension fund to grant loans to the supporting enterprise is—compared to the Direktzusage or the Unterstützungskasse—largely restricted.

2. Betriebsmittelbarer Pension Fund ("BMPF")

This form of pension fund is a further development of the Unterstützungskasse and is also only suitable for defined benefits. With the possibility of flexible endowments and a more capital-market oriented investment policy, these funds are supposed to be an incentive, especially for small and medium-sized enterprises, to make pension commitments.

3. Investment-Oriented Pension Fund ("APF")

This form considers the tendency towards contribution-oriented commitments and uses the Anglo-Saxon pension funds as a model.

The employer commits himself to pay contributions but not to pay pension payments. In contrast to the AS, the most important feature of this model is the hedging of biometrical risks. Hedging can either be done by the enterprise, itself, or by a separate insurance.

In addition, the pension fund has to administer the assets for the purpose indicated. The fund's management is restricted to strategical investment decisions. Asset management, however, has to be transferred to professional investment managers who are subject to state supervision. Within the scope of the investment strategy, funds are to be invested in capital markets. Pensioners will benefit from the expected improvement of returns, with all associated chances and risks.

Recently, German advertisements emphasized the aspect of return with respect to this fund. Provided an employee pays a monthly contribution of DM 100 to the fund for 25 years, such employee will, compared to other forms of investment, save U.S. $86,666 instead of U.S. $37,777 for his or her old age provision. Prior to the development of this type of fund, such considerations were only important for the enterprise but not for the employee who was granted a defined benefit.

CONCLUSION

In light of the foregoing discussion addressing the present status of the German pension system, this Author sets forth the following four theses:

First, due to the high level of state-funded pension plans, company-based pension plans have only a supplementary function in Germany. As a result of the forthcoming cuts in the Social Security pension insurance, however, the importance of occupational pension schemes will rise.

Second, reform of the company-based pension schemes in Germany has to meet the following requirements: It has to raise the level of attractiveness for these voluntary commitments, especially in terms of more favourable taxation; it has to maintain the flexibility within the different methods; it has to keep up with the trend presently shifting away from defined benefit to defined contribution plans by implementing pension funds according to the Anglo-Saxon model; it has to take advantage of the opportunities of capital markets; and the time after which rights become vested has to be reduced.

Third, the reform will further develop the conventional and introduce new pension methods. For such new methods, defined contribution plans and thus pension funds similar to Anglo-Saxon models will become more and more important.

Finally, since all German political parties have agreed to the reform of old age provision, the exact shape these reforms will take depends now on the course of the new government in Germany, which took over in October 1998.

ADDITIONAL SOURCES:

GERKE, Wolfgang (1998): Bericht des Arbeitskreises "Betriebliche Pensionsfonds" im Auftrag des Forums Finanzplatz beim Bundesministerium für Finanzen", Bonn 1998 [Wolfgang Gerke, *Company Pension Funds* (Report of the Working Group for the Forum Finance Cent. of the Fed. Ministry of Fin., 1998)].

HEMMER, Edmund (1998): *Personalzusatzkosten 1997 – Rückgang bei der Lohnfortzahlung führt zu gesunkener Quote, in*: PERSONAL (1998), pp. 252-256 [Edmund Hemmer, *Supplemental Labor Costs 1997: Reduction in Wage Continuation Payments Leads to a Reduced Quota, in* PERSONNEL 252-256 (1998)].

KNOSPE, Jörg (1998): *Neuer Schwung in der Altersvorsorge? Streit um neuen Fondstyp entschieden: "Altersvorsorge-Sondervermögen" ein einträglicher Kompromiß, in*: ZEITSCHRIFT FÜR VERSICHERUNGSWESEN (1998), pp. 119-120 [Jorg Knospe, *New Activity in Pensions? Conflict over New Type of Fund Resolved: "Pension Special Fund" an Acceptable Compromise, in* J. OF INS. 119-120 (1998)].